

ISSUE

Is the exempt status of an organization described in section 501(c)(6) of the Internal Revenue Code adversely affected when its primary source of support is income derived from the sale of broadcasting rights?

FACTS

The organization was formed to promote interest in a particular sport, to elevate the standards of the sport as a profession, and to sponsor and conduct tournaments for the encouragement of its members. The organization's membership is open to all professional players of the sport in the United States. The organization has been recognized as exempt from federal income tax under section 501(c)(6) of the Code.

Among its activities, the organization conducts apprentice programs, annual conventions and merchandise shows, and tournaments. Its support is derived primarily from the sale of television broadcasting rights to its tournaments. Other support is from membership dues, penalties, and apprentice fees. Its expenses are for salaries, administrative costs of its programs, and tournament costs, including prizes and awards.

LAW AND ANALYSIS

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It also provides that the activities of the organization should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Rev. Rul. 58-502, 1958-2 C.B. 271, describes an association, exempt under section 501(c)(6) of the Code, which was formed to promote and conserve the best interest and true spirit of a game and which accomplishes its exempt purposes by the sponsoring and conducting of championship tournaments and the incidental sale of radio and television broadcasting rights. Rev. Rul. 58-502 implies that unless the amount of income received by the association from the sale of broadcasting rights is relatively insignificant, the sale of broadcasting rights would not serve the association's exempt purposes.

Here, the organization's tournament activities are similar to those of an organization described in Rev. Rul. 58-502, with the exception that the organization's primary source of support is the sale of broadcasting rights.

The sponsorship of tournaments and the sale of broadcasting rights with respect thereto by the organization directly promotes the interest of those engaged in the sport by encouraging participation in the sport and by enhancing awareness by the general public of the sport as a profession. The amount of income derived from the sale of broadcasting rights is not, by itself, determinative of whether the activity furthers the purposes specified in section 501(c)(6) of the Code. Thus, under the circumstances described above, sponsoring tournaments and selling broadcasting rights are activities directly related to exempt purposes, notwithstanding the amount of income received.

HOLDING

An organization exempt from federal income taxes under section 501(c)(6) of the Code will not adversely affect its exempt status if its primary source of support is derived from the sale of broadcasting rights to the sports tournaments it conducts.

EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 58-502 is clarified to remove the implication that the sale of television broadcasting rights to an organization's tournaments furthers exempt purposes within the meaning of section 501(c)(6) of the Code only when the amount of income derived therefrom is insignificant in amount.

Also, see Rev. Rul. 80-295, this page, and Rev. Rul. 80-296, this page, this Bulletin.

Internal Revenue Service